

STATE OF DELAWARE
OFFICE OF
AUDITOR OF ACCOUNTS

**DIVISION OF SUBSTANCE ABUSE AND
MENTAL HEALTH**

USE OF VIDEO LOTTERY FUNDS

SPECIAL INVESTIGATION

FIELDWORK END DATE: APRIL 1, 2008

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State of Delaware
Office of Auditor of Accounts
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At a Glance

Working Hard to Protect YOUR Tax Dollars

Why We Did This Review

- The Office of Auditor of Accounts (AOA) received a hotline allegation that the Division of Substance Abuse and Mental Health (DSAMH) holds up to 50% of the funds that are required by law to go specifically towards helping individuals with gambling addictions. Allegedly, DSAMH directs a portion of the funds to other programs that do not have specified revenue sources.

Background

Per 29 Delaware Code, Chapter 48, § 4815, “. . . proceeds shall be applied as follows: . . . \$100,000 or 1%, whichever is greater, of the proceeds distributed under (b)(2)a.–d. of this section, to the Division of Substance Abuse and Mental Health of the Department of Health and Social Services for funding programs for the treatment, education and assistance of compulsive gamblers and their families.”

The Delaware Lottery Office (DLO) transfers the video lottery proceeds to DSAHM. DSAHM uses a specified appropriation to account for the funds. Any unused funds carry forward each year. DSAHM contracts with various vendors to provide services to individuals with gambling addictions.

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**DIVISION OF SUBSTANCE ABUSE AND MENTAL HEALTH
USE OF VIDEO LOTTERY FUNDS**

What We Found

- Video Lottery Proceeds (VLP) were either (a) used for the treatment, education, and assistance of compulsive gamblers and their families, (b) used for administrative costs using the federally accepted administrative cost rate of 5% (except as noted below), or (c) earmarked for a study of gambling needs and services within Delaware.
- 64 transactions lacked proper support.
- Administrative costs in FY07 exceeded the allowable 5% percentage by \$36,915.
- The allegation is unsubstantiated.

What We Recommend

DSAMH should:

- Maintain proper support for all disbursements;
- Repay \$36,915 to the VLP appropriation; and
- Implement a management review function in which activity in the VLP appropriation is reviewed for propriety.

Please read the complete report for a full list of findings/recommendations and to review DSAMH's response to our findings.

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AUDIT AUTHORITY

Title 29, Del. C. c. 29 authorizes the Auditor of Accounts to file written reports containing:

1. Whether all expenditures have been for the purpose authorized in the appropriations;
2. Whether all receipts have been accounted for and paid into the State Treasury as required by law;
3. All illegal and inappropriate practices;
4. Recommendations for greater simplicity, accuracy, efficiency, and economy; and
5. Such data, information, and recommendations as the Auditor of Accounts may deem advisable and necessary.

ALLEGATION AND BACKGROUND

ALLEGATION

The Office of Auditor of Accounts (AOA) received a hotline allegation that the Division of Substance Abuse and Mental Health (DSAMH) holds up to 50% of the funds that are required by law to go specifically towards helping individuals with gambling addictions. Allegedly, DSAMH directs a portion of the funds to other programs that do not have specified revenue sources.

BACKGROUND

Per 29 Delaware Code, Chapter 48, § 4815, “All proceeds, net of proceeds returned to players pursuant to paragraph (1) of this subsection, from the operation of the video lottery shall be electronically transferred daily or weekly at the discretion of the Lottery Director into a designated State Lottery account by the agent, and transferred to the State Lottery Fund by the Lottery on a daily or weekly basis and shall be applied as follows: . . . second, \$100,000 or 1%, whichever is greater, of the proceeds distributed under (b)(2)a.–d. of this section, to the Division of Substance Abuse and Mental Health of the Department of Health and Social Services for funding programs for the treatment, education and assistance of compulsive gamblers and their families.”

The Delaware Lottery Office (DLO) transfers the video lottery proceeds to DSAHM. DSAHM uses a specified appropriation to account for the funds. Any unused funds carry forward each year. DSAHM contracts with various vendors to provide services to individuals with gambling addictions.

OBJECTIVES, SCOPE, & METHODOLOGY

OBJECTIVE

The objectives of the investigation were:

- To determine the total funding transferred from DLO to DSAMH, and
- To determine if the funds were used in accordance with 29 Delaware Code, Chapter 48, §4815.

SCOPE

The scope of the investigation includes a review of 100% of financial activity for DSAMH's Video Lottery Proceeds appropriation (VLP appropriation) for Fiscal Year 2006 (FY06) and Fiscal Year 2007 (FY07). In addition, an analysis of the appropriation balance was performed for Fiscal Year 2003 (FY03) through FY07. The investigation was performed in accordance with the President's Council on Integrity and Efficiency, *Quality Standards for Investigations*.

METHODOLOGY

Investigative techniques included:

- Interviews and inquiry, and
- Inspection and confirmation of documentation.

The investigation consisted of the following procedures:

- Reviewed relevant sections of Code, laws, and regulations.
- Worked with representatives from DLO to determine how funds were allocated to DSAMH.
- Reviewed contracts with vendors paid from the VLP appropriation to determine if the contracts contained specific language that addressed services to be offered to persons with gambling addictions.
- Tested 100% of the expenditure transactions paid from the VLP appropriation.

RESULTS OF TESTING AND CONCLUSIONS

RESULTS OF TESTING

During FY06 and FY07, DSAMH received \$1,548,214 and \$1,919,230 in video lottery proceeds. The funds were used as follows:

Vendor	FY06 Expenditures	FY07 Expenditures	Type of Expense
APGSA	\$ 0	\$ 1,500	Fees for gambling association
Brandywine Counseling Inc.	156,191	156,191	*
Central DE Committee on Drug and Alcohol	0	61,016	*
Connections Community Support Programs	116,792	116,792	*
Delaware Council on Gambling Problems, Inc.	969,724	1,002,062	Services for individuals with gambling addictions
Gateway Foundation	121,751	121,751	*
Kent County Counseling Service	82,016	21,000	*
Thresholds Inc.	48,650	48,650	*
Various	66,773	126,055	Administrative Costs
Total Expenditure Transactions	\$ 1,561,897	\$ 1,655,017	

* Transactions with these vendors totaled \$525,400 in both FY06 and FY07, for a grand total of \$1,050,800. The vendors provided services for individuals with a variety of addictions. Based on national studies, reports, and benchmarks, DSAMH used Video Lottery funds to support up to 20% of the contract amounts with these vendors.

Administrative costs of \$66,773 and \$126,055 were paid from the VLP appropriation in FY06 and FY07, respectively. DSAMH used federal grant guidelines, which allow 5% of federal grants to be used for administrative purposes. During FY06, administrative costs totaled approximately 4% of receipts. During FY07, due to a change of staff and administrative error, administrative costs totaled approximately 7% of receipts. Federal guidelines do not allow a subsequent year's administrative percentage to increase if in a prior year(s) administrative costs were less than 5%. Excessive administrative costs paid from the VLP appropriation totaled approximately \$36,915.

RESULTS OF TESTING AND CONCLUSIONS

Numerous transactions did not contain adequate support and/or lacked proper approvals; 100% of the transactions lacking proper support were for administrative costs. The following table summarizes the transactions for FY06 and FY07:

	<u>FY06</u>	<u>FY07</u>	<u>Total</u>
Total number of transactions	164	187	351
Transactions lacking sufficient support	17	47	64
Transactions lacking proper approval	12	23	35

Following is an analysis of activity in the VLP appropriation from FY03 through FY07:

	<u>Beginning Balance</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>Ending Balance</u>	
				<u>Encumbered</u>	<u>Unencumbered</u>
FY03	\$1,402,175	\$1,476,162	\$1,453,600	\$349,625	\$1,075,113
FY04	1,424,738	1,498,895	1,447,899	325,049	1,150,685
FY05	1,475,734	1,598,174	1,492,115	73,834	1,507,959
FY06	1,581,793	1,548,214	1,561,898	67,207	1,500,903
FY07	\$1,568,110	<u>1,919,230</u>	<u>1,655,017</u>	\$ 83,771	\$1,748,552
Totals		<u>\$8,040,675</u>	<u>\$7,610,528</u>		

Although it appears that DSAMH has accumulated an excessive balance in the VLP appropriation, and that a need has not been demonstrated for the amount of funds received, DSAMH has earmarked the available funds for an evaluation of gambling needs and services within Delaware. This study involves an analysis of current needs and services in Delaware, a forecast of future needs and services, as well as an evaluation of the impact of neighboring states on the needs, services, etc. of Delaware.

CONCLUSION

AOA concludes that the allegation was unsubstantiated.

RESULTS OF TESTING AND CONCLUSIONS

Finding 1- Supporting Documentation

During testing of 100% of activity for FY06 and FY07, AOA found 64 transactions that lacked proper support.

The State of Delaware *Budget and Accounting Manual*, Chapter VII states, "All invoices, bills, statements, letters, vouchers and other documents pertaining to disbursements shall be preserved and systematically filed by each agency."

Lack of adequate supporting documentation raises questions about the validity and integrity of transactions.

Recommendation

DSAMH should adhere to the State of Delaware *Budget and Accounting Manual* and maintain proper support for all disbursements.

Auditee Response

Under DHSS Delegation Agreement #5, DSAMH is responsible for data entry, approval and file maintenance for: (1) payment vouchers, purchase orders, purchase order modifications, and encumbrance adjustments under \$2,500.01; and (2) intergovernmental vouchers and expenditure correction documents.

DSAMH will adhere to the State of Delaware *Budget and Accounting Manual* and maintain proper support for these transactions. Training materials are being compiled; and an in-service training for DSAMH business office staff is tentatively scheduled for July 8, 2008.

Finding #2 – Excessive Administrative Costs

During FY07, excessive administrative costs paid from the VLP appropriation totaled approximately \$36,915. A new employee did not track FY07 costs properly, which resulted in the excessive administrative costs.

Recommendation

DSAMH should:

- Repay \$36,915 to the VLP appropriation, and
- Implement a management review function in which activity in the VLP appropriation is reviewed for propriety.

RESULTS OF TESTING AND CONCLUSIONS

Auditee Response

DSAMH agrees to repay the Video Lottery Proceeds appropriation (0610 8001) a total of \$36,915. Ledgers will continue to be maintained to track the Video Lottery related revenue and expenditures by Fiscal Year. This report will be added to the core group of documents that are produced for, and discussed at, DSAMH's monthly Surplus/Deficit review meetings. DSAMH management staff attends these meetings as part of our budget oversight effort and in preparation for submission of the monthly Expenditure Report to the DHSS budget unit.

DISTRIBUTION OF REPORT

Copies of this report have been distributed to the following public officials:

Executive

The Honorable Ruth Ann Minner, Governor, State of Delaware

Legislative

The Honorable Russell T. Larson, Controller General, Office of the Controller General

Other Elective Offices

The Honorable Joseph R. Biden III, Attorney General, Office of the Attorney General

Other

Mr. Vincent Mecconi, Secretary, Department of Health and Social Services

Ms. Renata Henry, Director, Division of Substance Abuse and Mental Health, Department of Health and Social Services

Ms. Valencia Beaty, Director, Division of Management Services, Department of Health and Social Services

Ms. Melody Lasana, Controller, Department of Health and Social Services